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SIPDIS

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PRETORIA FOR JRIPLEY
JOHANNESBURG FCS FOR RDONOVAN, JVANRENSBURG
USDOC FOR RTELCHIN
MCC FOR SGAULL, TBRIGGS
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SUBJECT: MOZAMBIQUE - SEPTEMBER ECONOMIC DIGEST

REF: MAPUTO 1176

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¶1. This is a brief summary of significant economic developments in Mozambique in September 2005. We provide it as a supplement to our other reporting. This issue of the Digest contains, mainly, information on new assistance flows. The items discussed are as follows:

- USG Title I Grant
- Moma Mine Ahead of Schedule
- Credit Rating by Standard and Poors
- MCC Moving Forward
- French Provide Assistance on Water
- World Bank Grant
- Rural Credit Program Launched
- US Funds Feasibility Study for Lurio River Hydropower

P.L. 480 TITLE I GRANT

¶2. On September 29 the US and Mozambique signed a new P.L. 480 Title I agreement. Under this agreement the US will provide 3,000 tons of crude vegetable oil, with a total value of USD 3.7 million (including the cost of transport). The oil will be sold to local cooking oil producers and the proceeds used to finance programs designed to expand markets, improve the business environment and strengthen the capacity of local labor-intensive industries. Three particular programs will benefit from this sale. The first seeks to increase capacity within the Ministry of Industry and Trade to negotiate international trade agreement and ensure Mozambican produce access to export markets (USD 500,000). The second focuses on making Mozambican companies more competitive, reducing the cost of doing business and improving the overall business environment (USD 700,000). The third program (USD 452,000) finances economic, trade and agricultural scholarships at institutions in Mozambique, South Africa and the US.

MOMA TITANIUM MINE AHEAD OF SCHEDULE

¶3. On September 21 Kenmare Resources announced that its multi-million dollar Moma Titanium Minerals Mine, in the northern province of Nampula, was then 41 percent complete. The current completion time frame is the fourth quarter of 2006; however, according to Kenmare, construction was already six weeks ahead of schedule. Once finished, Kenmare expects the Moma mine to produce annually 700,000 tons of ilmenite, 60,000 tons of zircon and 17,000 tons of rutile for at least 20 years. In addition to employing more than 1,000 workers during the next construction phase, the Moma mine will create 436 direct hire positions and approximately 1,500 ancillary jobs in the region. The market price for zircon has increased USD 200 per ton since Kenmare drew up its original financial plan, leading to Kenmare's exploration for other profitable resources beyond the current mining area. Once in production, the Moma mine could contribute up to 2.4 percent of Mozambique's Gross Domestic Product.

S&P RATES MOZAMBIQUE "B"

¶4. On September 9 the US rating agency Standard and Poor's (S&P) announced its first credit rating for the government of Mozambique, giving it a "B." S&P conducted the rating survey with funding provided by the United Nations Development Program (UNDP). Mozambique's "B" rating is the same S&P gave to the governments of Madagascar and Burkina Faso. According to S&P, Mozambique's "B" rating means that it is considered vulnerable to adverse conditions but has the current capacity to meet financial commitments. S&P also declared Mozambique's outlook "positive," suggesting that it believes the credit rating could improve over the next two or three years. Mozambique is only one of ten sub-Saharan

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African governments with S&P credit ratings.

MCC MOVING FORWARD

¶5. On September 8 Mozambique took another step forward with the Millennium Challenge Corporation (MCC), when both parties signed a six million dollar "pre-compact" agreement. Under the agreement, MCC will finance feasibility and assessment studies of projects submitted by the government, in preparation for the signing an actual compact agreement. To date discussions have focused on a compact involving several hundred million dollars worth of assistance, targeted at northern Mozambique for water and sanitation projects and improving the business environment.

FRENCH FINANCE WATER SUPPLY PROJECT

¶6. On September 16 the governor of the Mozambican central bank, Adriano Maleiane, and the French ambassador to Mozambique, Louise Avon, signed an agreement granting Mozambique seven million Euros (approximately 8.4 million dollars) for a drinking water project in the Maputo suburbs. The current water system loses an estimated 15,000 cubic meters a day, and the new program hopes to reduce this loss, benefiting between 200,000 and 300,000 consumers. The government's Water Supply Investment and Assets Fund will manage the program, which will implement a sustainable management system of about 400 water sources. The program focuses on needier consumers in the Maputo suburbs who are not included in the medium term plans of the Aguas de Mocambique. According to the French embassy, the grant is France's contribution to help Mozambique meet the Millennium Development Goals in the area of water

supply.

ADDITIONAL WORLD BANK CREDIT APPROVED

17. On September 16 Mozambique and the World Bank signed a USD 120 million grant agreement, earmarked for poverty reduction initiatives (the World Bank's Executive Board agreed to the grant several days earlier). At the agreement signing Gregor Binkert, chief economist at the World Bank mission in Maputo, credited the grant to ongoing Mozambican reforms. The Minister of Planning and Development, Aiuba Cuereneia, promised that the government would continue focusing on infrastructures, agriculture, health and education. The grant will be disbursed in two equal-sized USD 60 million tranches, one this year and the second in 2006. To receive the second tranche, the Mozambican government must meet a series of indicators, including final adoption of a new commercial code, reforms in the judicial system and, significantly, implementation of a procurement system in accordance with international standards.

RURAL CREDIT PROGRAM STARTED

18. On September 15 the Mozambican government announced the launching of a rural credit program, funded jointly by the International Fund for Agricultural Development (IFAD), the African Development Bank (ADB) and the government. The program is budgeted at approximately USD 34 million. Its aim is to provide credit to small companies and farmers in outlying rural areas through direct credit and "institutional strengthening of their activities," according to Mozambique's Planning Minister. In its initial phase the program will focus on ten to fifteen percent of the 128 rural districts. Ultimately, the government hopes the program will provide financing for 125,000 new clients. The Economic Rehabilitation Support Fund (FARE), supervised by the Ministry of Planning and

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Development, will manage the fund.

US TO SUPPORT FEASIBILITY STUDY OF LURIO RIVER DAMS

19. On September 2 the Mozambican government signed a grant agreement with the United States Trade and Development Agency (TDA), under which TDA will provide \$600,000 to finance a feasibility study for two hydroelectric dams on the Lurio river. The Lurio forms the boundary between Nampula and Cabo Delgado provinces in the northernmost corner of the country. The dams are expected to provide approximately 180 megawatts of power, which will be more than enough to supply the northern part of the country and enable Mozambique to export additional electricity from the giant Cahora Bassa dam on the Zambezi. With this plan Mozambique is attempting to address the region's predicted growth in energy demand by 2007. Also part of the agreement, the United States Energy Association agreed to provide training to Electricidade de Mozambique, the national electricity company. The first group of technicians from the United States will arrive in January 2006.

La Lime